NIELSEN
FINANCIAL COUNSELING

Don’t be a train wreck victim…….

Many of us are self-employed – fending for ourselves – in the gigantic train wreck called health care.

But there are measures to take and fight back.

First, check the available subsidies under the Affordable Care Act (ACA) – Open enrollment began November 1st and will last until January 15th. Subsidies are based household size vs income…..but not any income – Modified Adjusted Income or MAGI.

This is where it gets interesting because one of the ways to lower your MAGI is to contribute to a Health Savings Account (HSA).

Contribution limits for 2024 are a generous 8,300 for a family or $4,150 for individuals. Unlike other contribution limits, the HSA is not subject to income limitations or does not consider what you already have tax deferred via other contributions.

In order to contribute you need to be on a Health care plan designated as HDHP (High Deductible Health Plan) – You also need to open an HSA account. For that I’d recommend a brokerage like Fidelity rather than your regular bank. The reason being that in a brokerage account the HSA can be invested. We will get back to that.

If within striking range of subsidies from the ACA, the HSA only brings you closer by lowering MAGI, but it also helps pay for premiums, indirectly, by offsetting taxes otherwise destined for the IRS.

Let’s say you manage to fund it for 2 years straight – as an individual – then you will have $8300 (we will disregard any interest accrued or future increased limits). The $8,300 will likely cover the max out of pocket on your health insurance plan, but even better, when you take funds out to pay for eligible medical expenses, there are no taxes despite the deductions you took when contributing. It’s like getting the ROTH IRA treatment.

But think further out…..

You continue to contribute over the years, racking up nice tax deferrals along the way. Whatever maximum out of pocket your healthcare policy dictates, you leave that amount in a money market fund – earning some interest – that way you have a fully funded health emergency account.

The amount above that number is invested like you would do with a 401K.

Here is why.

When turning 65, the HSA can have grown quite large – by that time you can begin to withdraw for any purpose, not just medical. This effectively turns the HSA into a regular IRA with taxation on the amounts withdrawn in turn for the deductions you took at contribution.

But there is more…..
Let’s assume you had good health (and luck) along the way and only had smaller medical expenses which you paid out of pocket rather than taking from your HSA. You kept those receipts. Now at 65 as you begin to withdraw for any purpose, you can offset those taxes by the receipts you paid out of pocket.

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